

AR27

1979 ANNUAL REPORT

Place Gas & Oil Company Limited

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For the information of shareholders, the value of a share of the company on valuation day, December 22, 1971, was \$1.00.

(5) Texhoma Area, Grayson County, Texas. (400 acres). The test well No. 1 Guilloud drilled the objective Arkansas Novaculite which carried oil shows and computed oil zones on logs. Completion attempts recovered oil and gas shows and drilling mud. Repeated attempts to deplete the drilling mud failed leading to an investigation and conclusion that the source of the mud was an old Sinclair test 1000' southeast which pumped mud from pits into the well when plugged. We are of the opinion that this zone is productive in this area and a second test by farmout or owners will be proposed.

(6) Pottsboro Area, Grayson County, Texas, (640 acres). A test well encountered the objective Arkansas Novaculite zone at the base of Cretaceous unconformity. The zone carried excellent low gravity oil shows. The logs showed 10 ft. of productive zone in the Cretaceous at 850-60 ft. behind surface casing. The zone tested two million cu. ft. of gas with an estimated delivery of 200,000 — 300,000 cu. ft. of gas per day. Evidence suggests a large oil and gas shallow producing area involving most of our acreage. In addition to the shallow zone, offset drilling by a major oil company for the Novaculite will assist evaluation. Proposals for further development of the shallow production will be made.

Lake Erie

In Lake Erie this year we have so far completed two gas wells which are now tied into our gathering system, and the location of these wells adjoining our pipeline system in an area heretofore not considered to have gas potential has now provided offset well locations, and we should be able to drill at least six more wells in this immediate vicinity. Upon completion of two contract wells currently being drilled for another company, your company's offshore drilling equipment will be utilized for further drilling of our own wells.

Arctic Islands

In the Canadian Arctic Islands your Company participated in the drilling of the Phillips Aquit Et Al Hazen F-54 Well, located 30 miles south of MacKenzie King Island, which was drilled from an ice island in 767 feet of water. It was spudded February 11, 1979 and abandoned May 12, 1979, owing to climatic conditions, at a total depth of

10,040 feet after penetrating rocks of Lower Cretaceous to Lower Triassic age.

Projected reservoirs within the drilled interval were the Middle Jurassic Wilkie Point, the Upper Sandstone of the Middle Triassic Schei Point, and the Lower Triassic Bjorne formations. A deep, secondary objective was the upper portion of the Permian, however it was not reached by this well. Current velocity data indicates the Permian to be at least 1000 feet below the final well depth. Log analysis indicated possibly significant hydrocarbons in two intervals, with minor occurrences in several other zones. This well was abandoned.

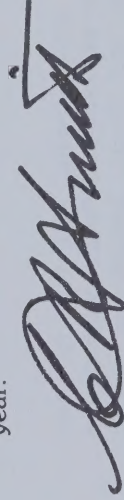
Your Company's interest in the well and the acreage on which the well was drilled is 2.64%. Other interests are Phillips Petroleum 50%, Aquitaine Canada 25%, Panarctic Oils 10%, British Columbia Oil Lands (B.P.) 6% and Prairie Oil Royalties (Norcen) 6%.

A further test, in which your Company does not hold a direct interest, Panarctic Whitefish AIEG H-63 Well, in the Sverdrup Basin northeast of the Drake Gas Field, east of the Hazen Strait Well, was drilled at the same time. Although this well was not completed, sufficient results were obtained to indicate an estimated proven gas reserve of possibly 5 trillion cu. ft. This additional proven gas reserve should have a substantial impact on the economic feasibility of pipelining gas production in the Arctic Islands.

Alberta

In Alberta, your Company holds a 25% interest in three gas wells in the Bantry Field with an estimated absolute open flow exceeding 50 million cu. ft., and should be capable of marketing 3-4 million cu. ft. per day when export permits are obtained. In the meantime, these wells are standing capped.

The first six months of this year have shown a substantial expenditure and we expect the results of our efforts will be reflected later in the year.



Clifford R.J. Smith

President and Managing Director.

August 10th, 1979.

Report to Shareholders

6 months ended
June 30, 1979

**PLACE GAS & OIL COMPANY
LIMITED**



P.O. Box 196
Toronto-Dominion Centre
Toronto, M5K 1H6 Canada
Telephone (416) 364-4283
Cable Address "Placegas"

CONSOLIDATED SEMI-ANNUAL REPORT **(UNAUDITED)**

Six Months ended June 30th, 1979

	1979	1978
Revenue	\$ 710,671	\$ 459,242
Operating Costs	<u>362,821</u>	<u>233,186</u>
Net Revenue before Depreciation and Depletion	\$ 347,850	\$ 226,056
Depreciation and Depletion, estimated	<u>65,000</u>	<u>60,000</u>
	<u>\$ 282,850</u>	<u>\$ 166,056</u>
Earnings per share	<u><u>\$.0487</u></u>	<u><u>\$.0286</u></u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Funds derived from:		
Net Revenue before Depreciation	<u>\$ 347,850</u>	<u>\$ 226,056</u>
Funds applied to:		
Investments and Advances	\$ 220,844	\$ 215,926
Fixed Assets	<u>940,566</u>	<u>6,906</u>
	<u>\$ 1,161,410</u>	<u>\$ 222,832</u>
Net Increase (Decrease)	\$ (813,560)	\$ 3,224
Working Capital, beginning of Year	<u>610,346</u>	<u>527,637</u>
Working Capital, end of Period	<u><u>\$ (203,214)</u></u>	<u><u>\$ 530,861</u></u>

To the Shareholders

The continued increase in revenue as indicated by the foregoing figures comes mainly from our Lake Erie Operations' gas production. The temporary depletion of our working capital, which has been adequately provided for by

banking arrangements, was due to more aggressive exploration activities conducted in Oklahoma and Texas, through our wholly owned subsidiary, Place Gas & Oil Company Ltd. (Delaware).

Current Activities **Oklahoma and Texas**

Six projects are currently active in which Place has earned a net three-eighths working interest; two in Garvin County, Oklahoma, two in Marshall County, Oklahoma, and two in Grayson County, Texas. On these six, production of oil or gas has been established on three, two dry holes drilled on two others, and one remains untested. On these six we hold approximately 2,735 acres under lease and plan additional drilling on all six. The current price for oil in Oklahoma, for which our oil production should qualify, is in excess of \$20.00 per barrel. Revenue results from the foregoing should be reflected later in the year.

(1) Hart Area, Garvin County, Oklahoma (160 acres). The No. 1 Hart Gas Well produced excessive water with gas. The No. 2 Hart disposal well tested commercial oil from the Bromide sand below the disposal interval during re-entry drilling. Conversion of the disposal well to oil and the gas well to disposal is currently planned. Testing was inadequate to establish a daily rate. However, we estimate a 20-80 barrel daily range. One or two more locations on 40 acre spacing can be drilled to this zone.

(2) North McCarty, Garvin County, Oklahoma, No. 1 Richardson (273 acres). The No. 1 Richardson has settled at 18 barrels per day. An offset test has been recommended. Any additional proposals await the results of a second test. Additional wells and/or water flooding is possible.

(3) Woodville Area, Marshall County, Oklahoma (1080 acres). A test well failed to encounter the objective Arkansas Novaculite Zone. Dip-meter on the test show the anticipated 60-70 degree dips and the projection of the dips and thrusting suggest a position on our acreage where the zone would be present at shallow depths. A second test either by drilling or farmout will be proposed.

(4) Enos Extension Area, Marshall County, Oklahoma, (182 acres). We are still actively leasing small interests and working on a farmout or joint well with a major oil company and several independents in this area. A test well will be proposed.

PLACE GAS & OIL COMPANY LIMITED

DIRECTORS	J.D.S. Bohme, Q.C., Sir Michael Butler, Bart., Q.C., D.C. Early W.H. German W.D. Gill, M.A., D.Sc., C.R.J. Smith E.H. Smouha P.G. Turner	Toronto, Ontario Victoria, B.C. Toronto, Ontario Montreal, Quebec Yorkshire, England Toronto, Ontario Geneva, Switzerland Toronto, Ontario
OFFICERS	C.R.J. Smith Sir Michael Butler, Bart., Q.C., J.D.S. Bohme, Q.C., G.H. Weston	President Vice-President Secretary Treasurer
HEAD OFFICE	Suite 3916 — Royal Trust Tower, Toronto, Ontario, M5K 1H6	
FIELD OFFICE	Nanticoke, Ontario NOA 1L0	
TRANSFER AGENT & REGISTRAR	Canada Permanent Trust Company, Toronto, Ontario	
AUDITORS	Gardner, McDonald & Co.	

PLACE GAS & OIL COMPANY LTD. (DELAWARE)

Wholly owned United States Subsidiary Company
Suite 220, Neustadt Plaza,
333 West Main St., Ardmore, Oklahoma, 73401, U.S.A.

PLACE OIL & GAS COMPANY (U.K.) LIMITED

Wholly owned English Subsidiary Company
35 Basinghall Street, London EC2V 5DB, England.

PLACE GAS & OIL COMPANY LIMITED

PRESIDENT'S REPORT

To the Shareholders:

On behalf of the Board of Directors it gives me great pleasure to report the Company's 1979 operations, consolidated statement of accounts, current activities and plans for 1980.

Revenue from gas production in Lake Erie for 1979 was \$1,340,409 and miscellaneous revenue including the proceeds from nominal U.S. oil and gas sales, contract work in Lake Erie and investment income brought the total revenue to approximately \$1,449,475. Expenses increased modestly. The Company, now having reached a taxable profit position, is subject to current and deferred income taxes — which substantially reduced the net income before extraordinary items to \$396,099 or .068 cents per share. The aggressive drilling program which has by no means established the final evaluation of our U.S. holdings, conducted through our wholly owned United States subsidiary, required the cost of non-productive wells to be charged as an extraordinary item against our current earnings. The working capital position, however, will be improved early in 1980 by the proceeds of the sale of our Anschutz interest in Lake Erie in the amount of one million dollars. The marketing of our capped gas production in the Bantry Field in Alberta is still awaiting export permits. The successful drilling results of the Whitefish Well located on acreage in the vicinity of your Company's holdings in the High Arctic further substantiates the huge natural gas potential of the Sverdrup Basin. The necessary natural gas reserve requirements have been established for realistic marketing plans, which will include the gas reserves of the Drake and Hecla Fields in which your Company holds an interest. The drilling of two wells expected to start in April in Oklahoma and Texas and the drilling of wells in Alberta — the first to start in March — should provide considerable potential for the future of your Company.

LAKE ERIE

At the end of 1979 your Company held in good standing offshore Lake Erie a 100% interest in approximately 43,556.62 acres of natural gas Leases and Licences of Occupation and a 50% interest in approximately 42,834.82 acres of Leases and Licences of Occupation — a combined total of approximately 86,000 acres. However, early in 1980, in return for selling its Place/Anschutz holdings to the Anschutz company, your Company received one million dollars plus additional 100% owned acreage. This sale, therefore, reduced our 50% interest in Leases and Licences of Occupation to 26,846 acres and increased our 100% interest in Leases and Licences of Occupation to 45,357.62 acres (see Lake Erie map). Two new wholly owned gas wells were completed and placed on production last year and your Company now owns 100% — 56 commercial gas wells (adjusted by the 1980 Anschutz sale to 55) and a 50% interest in 27 commercial gas wells (adjusted by the 1980 Anschutz sale to 24). In 1979, gas production was sold to Union Gas Company at approximately \$2.10 Mcf. and the jointly owned Anschutz production was sold to Consumers Gas Company. Upon completion of the Anschutz sale, all our gas production in Lake Erie will be sold to Union Gas Company through our three meter stations at Port Dover, Selkirk and Port Maitland, Ontario. The field base maintained at Nanticoke, Ontario, facilitates pipe storage, service boats, underwater diving and marine equipment to maintain our offshore pipeline gathering systems and for work-overs and the drilling of wells. We have recently acquired from Underwater Gas Developers Ltd. "Translake No. 1" drilling platform and this will greatly facilitate further work-overs and drilling activity in the Lake. With the acquisition of three new blocks of acreage adjoining our Port Dover pipeline and production facility, we expect to drill at least four new wholly owned wells during the 1980 drilling season.

ALBERTA

Your Company holds a 25% interest in 5½ sections (3520 acres) in the Bantry area southeastern Alberta, containing two capped gas wells with a combined calculated absolute open flow test reported of 51 million cu.ft. of gas per day with estimated reserves of 3½ billion cu.ft. of gas. Your Company's 25% interest in this project, after costs are paid out, will be reduced to 12½%. A further well was drilled in January, 1979, and results indicated a small gas well which was not completed pending finalization of gas marketing contracts.

A contract has been signed with Pan Alberta for the sale of gas production, subject to export licences being obtained before the end of 1979. However, an extension has been granted to Pan Alberta owing to delays caused by Government decisions.

Exploration is continuing in Alberta with your Company's firm commitment to participate in the drilling of three oil prospect wells. The drilling of the first well in which your Company holds a 30% interest, located in the Drumheller area, should start mid-March, 1980; and the drilling of the second well in the same area, in which your Company holds a 25% interest, is expected to start in April. The drilling of a third well in which your Company holds a 25% interest, located in the Red Deer area, is also expected to start in April. Further oil prospects located in various areas in Alberta are currently being researched.

ARCTIC ISLANDS

In the Arctic Islands, located in the Sverdrup Basin, your Company holds a 1.35% interest in approximately 1,130,000 acres on the Sabine Peninsula, Melville Island, which includes the bulk of the Drake Gas Field and part of the Hecla Gas Field; also part of the Gas Field located on King Christian Island (see map).

Pacific Lighting Gas Development Company of California provided certain funds to pay the costs of drilling wells in the Drake and Hecla Fields etc., in return for a call on the gas, which is repayable only out of 25% of the value of gas, when sold.

Your Company's interest in the Arctic Islands is 1.35% of a possible 10 trillion cu.ft. of proven gas reserves. Panarctic Oils Limited, the Operator, with the most advanced underwater technology, is preparing the Drake and Hecla Fields for gas production, and latest plans are to pipeline from the base of the Sabine Peninsula to the south shore of Melville Island, where the gas will be liquified and transported by L.N.G. tankers down the east coast to Canadian and U.S. markets. The actual completion of this project is expected in the early 1980's. As further gas reserves are developed, pipelining will be considered.

In addition, your Company has a 2.64% interest in 931,000 acres offshore the Hazen Strait just west of the Sabine Peninsula, Melville Island. The Phillips Aquit Hazen F54 Well with Panarctic Oils as suboperator, was drilled from an ice platform in February, 1979. Climatic conditions allowed sufficient time to reach the initial target depth of 10,000', but did not allow the deepening of the well to further horizons expected. Numerous gas showings were encountered but the well was not considered to be commercial and was abandoned. At the same time, approximately 100 kilometres to the east on adjoining acreage, a consortium drilled the Whitefish Well which proved to be very successful. Although not fully tested owing to climatic conditions, there was no doubt that this Whitefish Well was a major discovery. Although your Company has no direct interest in the Whitefish Well, the success of the stepout well being drilled this year, with current testing substantiating the estimates of last year, has a great bearing on the marketing of the proven gas reserves of the Drake and Hecla Fields in which your Company holds an interest; and also stimulates further interest in exploring additional structures in the large Hazen Strait holdings. It is estimated that the results of this year's drilling of the Whitefish Well will provide the necessary 20 trillion cu.ft. of proven gas reserves necessary for economic transportation of the gas to market.

The participants in the Hazen Strait acreage are: 50% Phillips, 10% Panarctic, 25% Aquitaine, 6.175% B.P., 6.175% Prairie, and 2.647% Place.

Original Arctic Islands Holdings

<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
Sabine Peninsula	Panarctic			472,474
Melville Island	Oils Ltd.	689,145	1.35	& 477 to 488
King Christian Island	" "	81,356	1.35	503, 506 & 870
Lougheed Island	" "	57,210	1.35	501 & 502
<u>TOTAL Original Holdings</u>		<u>827,711</u>	Acres	

After Acquired Arctic Islands Holdings

<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
West Sabine Peninsula (Hecla Gas Field)	Panarctic Oils Ltd.	30,420	.675	1832
		30,601	.675	2474
		30,148	.675	2473
		15,210	.675	2715 (1/2)
		14,938	.675	3132 (1/2)
		<u>121,317</u>		
East Sabine Peninsula (Drake Gas Field)	Panarctic Oils Ltd.	30,057	.2025	1829
		30,148	.3375	1985
		30,601	.675	701
		30,601	.675	702
		<u>121,407</u>		
North Sabine Peninsula	Panarctic Oils Ltd.	29,151	.54	1568
		29,151	.54	1567
		<u>58,302</u>		
Hazen Strait	Phillips Petroleum	<u>931,000</u>	2.647	2699 to 2714
<u>TOTAL After Acquired Holdings</u>		<u>1,232,026</u>	Acres	

The successful Roche Point Well drilled in 1978 from an ice platform offshore the Sabine Peninsula, Melville Island, within 28 miles of the F54 Well which was completed as a gas well with considerable condensate, also adjoins the Hazen Strait acreage.

As indicated by the accompanying chart, your Company holds varying interests in a total of 2,059,737 acres in the Canadian High Arctic Islands.

OKLAHOMA AND TEXAS

Our current land holdings under lease in Oklahoma and Texas total approximately 2,700 acres.

Woodville Area, Marshall County, Oklahoma (1,080 acres). A test well failed to encounter the objective Arkansas Novaculite Zone. A dip-meter survey was conducted on the test area indicating a more favourable drilling location. A second test has now been arranged by farmout and the drilling of the well should start in April, 1980.

Texhoma Area, Grayson County, Texas (640 acres). The test well, No. 1 Guilloud, drilled the objective Arkansas Novaculite which carried oil shows and computed oil zones on logs. Completion attempts to deplete the drilling mud failed, leading to an investigation and conclusion that the source of the mud was an old Sinclair test 1000' southeast which pumped mud from pits into the well when plugged. We are of the opinion that the zone is productive in this area. By combining this acreage with

adjoining acreage in the Enos Extension area in Grayson County, Texas, we have established a new drilling location. The drilling of a new well, Guilloud No. 2, should commence in late April, dependent upon rig availability.

Owing to excessive water problems, it was found necessary to abandon the Hart No. 1 gas well in Garvin County, Oklahoma. Modest oil production is continuing from the Richardson No. 1 Well, North McCarty area, Garvin County, Oklahoma.

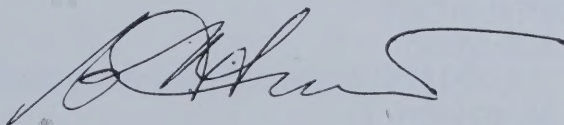
The McKinney No. 1 Well in the Pottsboro area, Grayson County, Texas, tested approximately two million cu.ft. of gas with an estimated delivery of 200-300 cu.ft. of gas per day. This well is capped until pipelining facilities reach the area. In the meantime, after numerous delays, testing of old abandoned producing shallow cretaceous oil wells is continuing, to evaluate the possibility of cretaceous oil production within these leases.

OTHER INTERESTS

Place Oil & Gas Company (U.K.) Limited, our wholly owned subsidiary, still retains a 15% interest in a Production Licence in the United Kingdom.

On behalf of the Directors, management sincerely acknowledges the support of its staff and the support and confidence received from its shareholders and cooperation of its exploration associates.

On behalf of the board



CLIFFORD R.J. SMITH
President and Managing Director.
March 12th, 1980.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

December 31, 1979

ASSETS

	1979	1978
CURRENT		
Cash and short term deposits	\$ 2,722	\$ 273,205
Accounts receivable (note 8)	178,100	161,476
Prepaid expenses	48,747	39,741
Marketable securities, at cost (market value 1979 — \$150,983; 1978 — \$214,333)	135,680	204,105
	<u>365,249</u>	<u>678,527</u>
INVESTMENTS		
Interests in oil syndicates at cost (notes 5 and 6)	971,105	696,359
Other investments and interests (note 2)	313,772	271,994
	<u>1,284,877</u>	<u>968,353</u>
FIXED, at cost (notes 1 and 4)	3,219,155	2,948,789
Less: Accumulated depreciation	1,416,535	1,265,745
	<u>1,802,620</u>	<u>1,683,044</u>
	<u>\$ 3,452,746</u>	<u>\$ 3,329,924</u>

LIABILITIES

CURRENT		
Bank advances (note 8)	\$ 182,303	\$ -
Accounts payable	174,438	68,181
Income taxes payable	47,000	-
	<u>403,741</u>	<u>68,181</u>
AMOUNTS PAYABLE FROM FUTURE PRODUCTION REVENUE (note 5)	646,211	605,351
DEFERRED INCOME TAXES	304,000	-
	<u>1,353,952</u>	<u>673,532</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
8,000,000 shares of \$1 par value each		
Issued (note 7)		
5,800,007 shares	3,798,632	3,798,632
DEFICIT	1,699,838	1,142,240
	<u>2,098,794</u>	<u>2,656,392</u>
	<u>\$ 3,452,746</u>	<u>\$ 3,329,924</u>

Approved by the Board of Directors:

C.R.J. Smith Director

P.G. Turner Director

See notes to consolidated financial statements.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1979

	<u>1979</u>	<u>1978</u>
REVENUE		
Gas and oil	\$ 1,380,215	\$ 1,243,697
Miscellaneous	69,260	69,099
	<u>1,449,475</u>	<u>1,312,796</u>
EXPENSES		
Head office and administrative	186,274	151,237
Production	321,529	294,741
Exploratory and development	42,283	43,877
Depreciation and depletion	152,290	120,129
	<u>702,376</u>	<u>609,984</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>747,099</u>	<u>702,812</u>
INCOME TAXES		
Current	47,000	-
Deferred	304,000	-
	<u>351,000</u>	<u>-</u>
INCOME FROM OPERATIONS	<u>396,099</u>	<u>702,812</u>
EXTRAORDINARY ITEMS		
Cost of wells abandoned	957,789	101,117
Write-off of other projects and interests	5,500	1,365
Gain on sale of investments	(9,592)	-
	<u>953,697</u>	<u>102,482</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ (557,598)</u>	<u>\$ 600,330</u>
EARNINGS PER SHARE		
Before extraordinary items	<u>\$.068</u>	<u>\$.121</u>
After extraordinary items	<u>\$ (.096)</u>	<u>\$.103</u>

See notes to consolidated financial statements.

PLACE GAS & OIL COMPANY LIMITED

CONSOLIDATED STATEMENT OF DEFICIT For the year ended December 31, 1979

	1979	1978
DEFICIT AT BEGINNING OF THE YEAR	\$ 1,142,240	\$ 1,742,570
NET INCOME (LOSS) FOR THE YEAR	(557,598)	600,330
DEFICIT AT END OF THE YEAR	<u>\$ 1,699,838</u>	<u>\$ 1,142,240</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION For the year ended December 31, 1979

	1979	1978
SOURCE OF FUNDS		
Income from operations	\$ 396,099	\$ 702,812
Add: Charges not requiring the use of funds		
Depreciation and depletion	152,290	120,129
Deferred taxes	304,000	
Funds from operations	852,389	822,941
Gain on sale of marketable securities	9,592	
Increase in amounts due from future production revenue	40,860	38,514
	<u>902,841</u>	<u>861,455</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	1,229,655	526,248
Interest in oil syndicates	274,746	41,728
Other investments	41,778	209,405
Write off of other projects and interests	5,500	1,365
	<u>1,551,679</u>	<u>778,746</u>
INCREASE (DECREASE) IN FUNDS	(648,838)	82,709
FUNDS AT BEGINNING OF THE YEAR	610,346	527,637
FUNDS (DEFICIENCY) AT END OF THE YEAR	<u>\$ (38,492)</u>	<u>\$ 610,346</u>
Represented by working capital (deficiency):		
Current assets	\$ 365,249	\$ 678,527
Less: Current liabilities	403,741	68,181
	<u>\$ (38,492)</u>	<u>\$ 610,346</u>

See notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Place Gas & Oil Company Limited

We have examined the consolidated balance sheet of Place Gas & Oil Company Limited as at December 31, 1979 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 31, 1980

GARDNER, McDONALD & CO.
Chartered Accountants

PLACE GAS & OIL COMPANY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

- i) These consolidated financial statements include the accounts of the company and its wholly-owned United States subsidiary.
- ii) The United Kingdom subsidiary has surrendered its offshore leases and retains an interest in one land lease, and consequently the company wrote down its investment in the United Kingdom subsidiary to a nominal value of \$1 which has not been consolidated.

b) Depreciation

Depreciation is calculated on the straight line method at 10% for buildings and equipment.

c) Depletion

Wells, gathering systems and oil and gas rights are depleted by the unit of production method based on estimated proven gas reserves.

d) Income taxes

Income taxes are accounted for by the tax allocation method. As allowed by the relevant income tax provisions and regulations, the company has claimed certain deductions for income tax purposes in excess of the amounts charged to income for accounting purposes. Deferred taxes are provided on these timing differences.

e) Foreign Exchange

Accounts in foreign currencies have been converted to Canadian currency on the following bases:

- i) Current assets and current liabilities at the exchange rate on December 31.
- ii) Fixed assets and other long term assets, and long term debt at historical rates of exchange.
- iii) Exchange gains and losses are included in determining net income for the year.

2. OTHER INVESTMENTS AND INTERESTS

Wholly-owned subsidiary (note 1):

Shares, at nominal value	\$ 1
Affiliate companies and other interest, at nominal value	1
Shares in Panarctic Oils Limited, at cost	26,124
Securities on deposit, at cost	5,525
Investment in Sabre Resources Program (note 3)	77,200
Investment in Anshutz-Place Alberta Exploration*	54,974
Investment in Delta-Place Bantry Area of Alberta	149,947
	<u>\$ 313,772</u>

3. INTEREST IN LIMITED PARTNERSHIP

Under an agreement dated August 30, 1977, Place Gas & Oil Company Limited is a party to a limited partnership referred to as Sabre Resources Program and is committed to a further \$20,000 upon call.

4. FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land, buildings and equipment	\$ 635,091	\$ 475,892
Petroleum and natural gas interests	339,417	21,079
Producing wells	1,655,523	654,378
Gathering systems	589,124	265,186
	<u>\$3,219,155</u>	<u>\$1,416,535</u>

5. AMOUNTS PAYABLE FROM FUTURE PRODUCTION REVENUE

Under an agreement between Pacific Lighting Gas Development Company of California (Pacific) and Place Gas & Oil Company Limited (Place), Pacific agreed to loan Place funds up to a certain limit in order that Place could meet its obligations relating to exploration costs in certain wells in Panarctic Oil Syndicate (Syndicate). Pacific thereby acquired the right to purchase from Place its share of any gas which may be produced from the said wells.

The loan, including accrued interest, a total of \$646,211, is to be repaid to Pacific only out of 25% of Place's share of the revenue from production wells for which Pacific advanced funds.

6. INTERESTS IN OIL SYNDICATES

The company's interests consist of the following:

- i) Interests, varying from .54% to 1.35% in approximately 1,130,000 acres on the Sabine Peninsula, Melville Island and on King Christian Island.
- ii) A 2.647% interest in approximately 931,000 acres offshore in the Hazen Strait, northwest of the Sabine Peninsula.

7. CAPITAL STOCK

	<u>Shares</u>	<u>Par Value</u>	<u>Discount</u>	
Shares issued:				
For cash	3,800,007	\$3,800,007	\$ 431,375	
For other consideration	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,570,000</u>	
	<u>5,800,007</u>	<u>\$5,800,007</u>	<u>\$2,001,375</u>	<u>\$3,798,632</u>

8. BANK LOAN

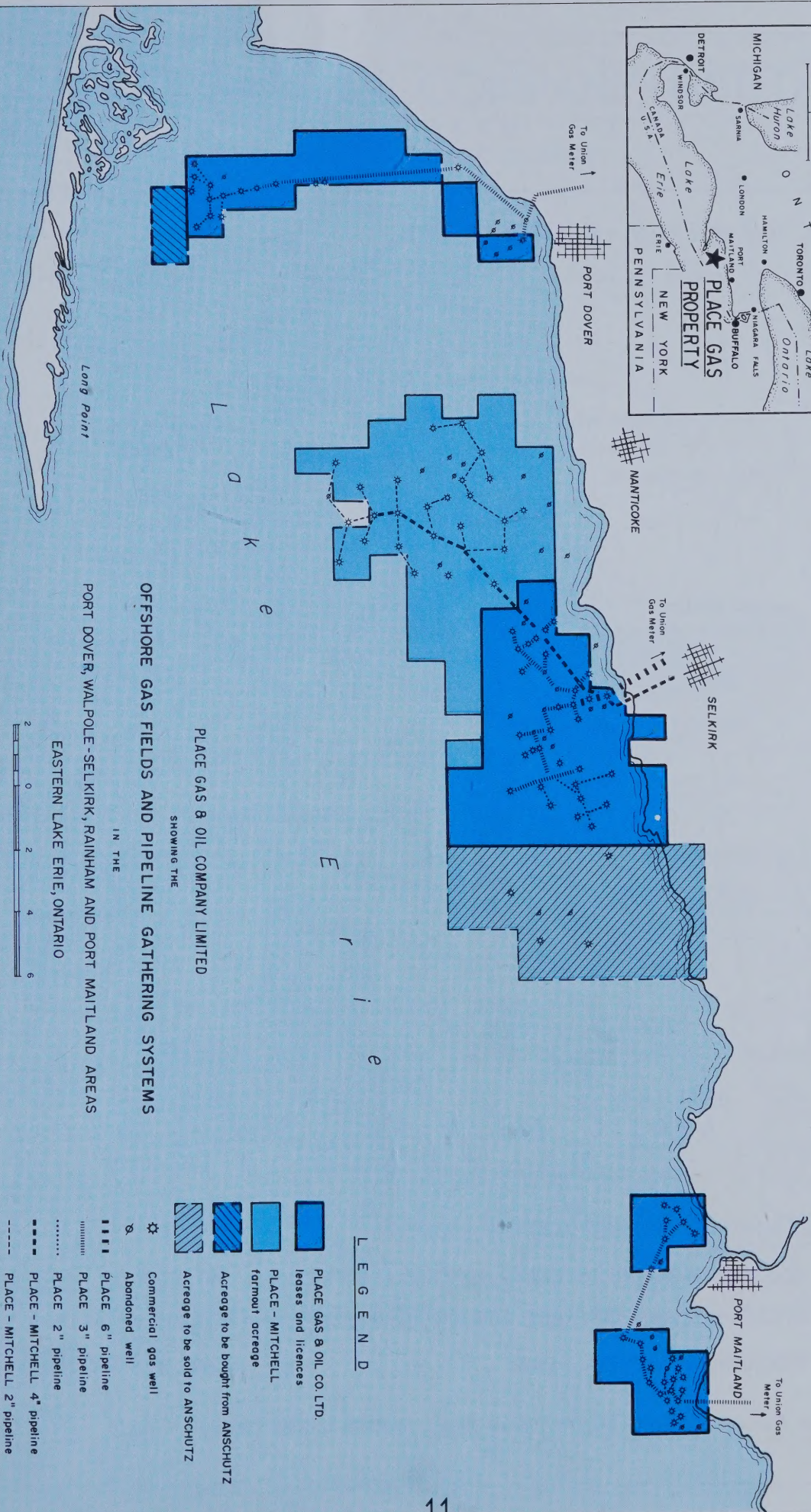
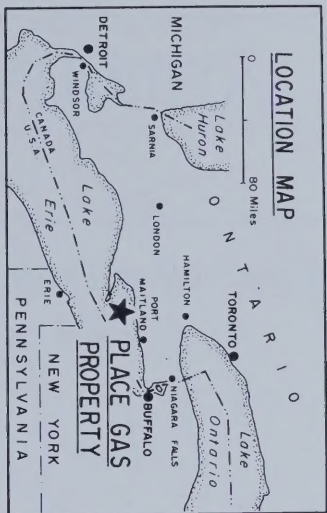
Bank debts have been pledged as security for the bank loan.

9. STATUTORY INFORMATION

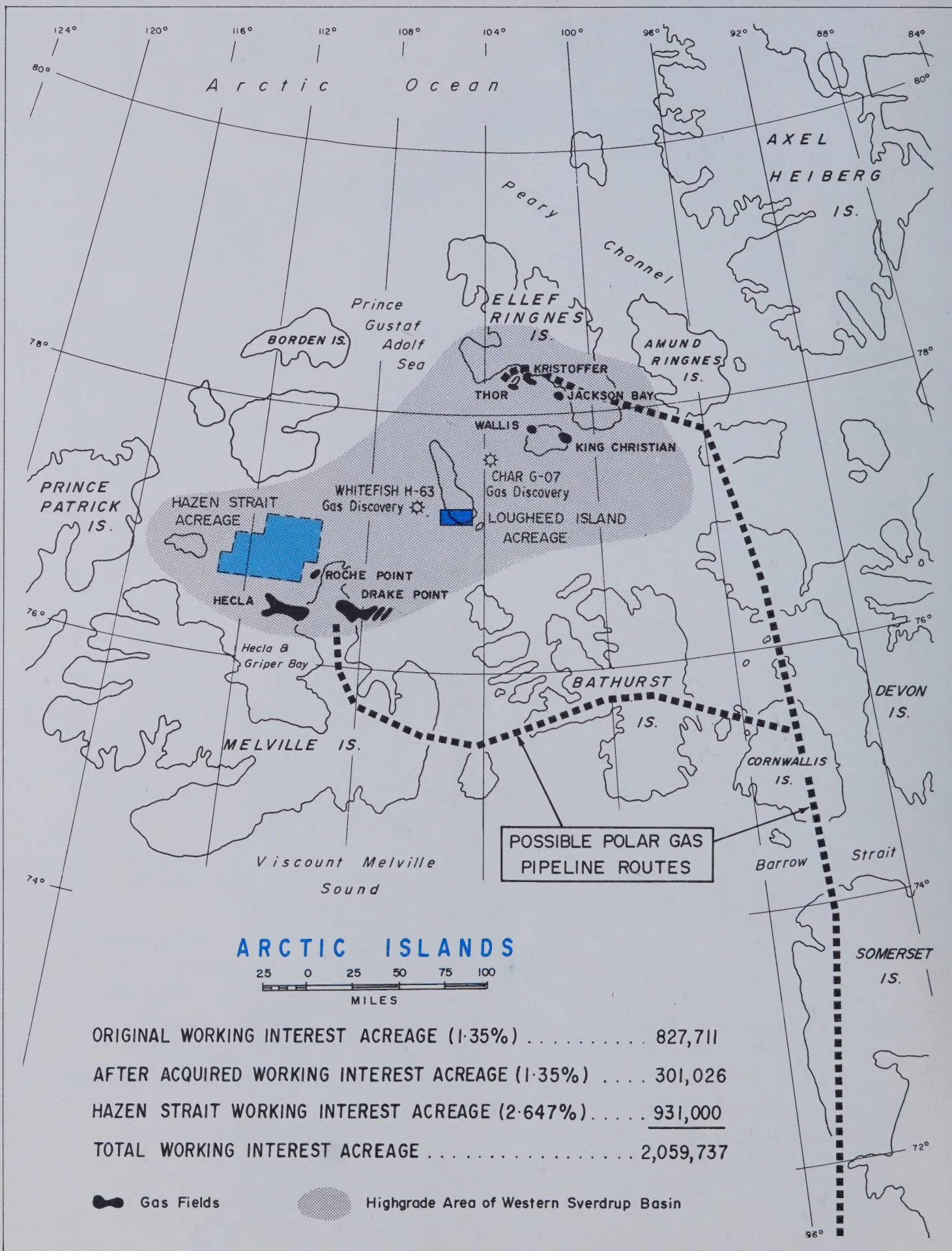
Total remuneration received by directors and senior officers of the company for their services amounted to \$159,000 (\$136,000 in 1978).

10. SUBSEQUENT EVENT

By an agreement effective January 1, 1980, the company sold its rights, title and interest in Place/Anschutz jointly owned Licences and Leases including three gas wells located in Block 19 in Lake Erie to Anschutz (Canada) Exploration Ltd. (Anschutz) for \$1,000,000 and exchanged Tracts E and F in Block 19 including one capped gas well for Tracts P, Q & R in Block 63 owned by Anschutz. The estimated income taxes as a result of the sale are \$200,000 current and \$140,000 deferred.

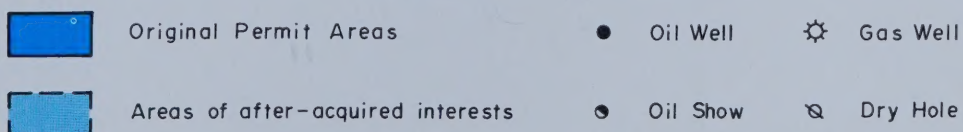
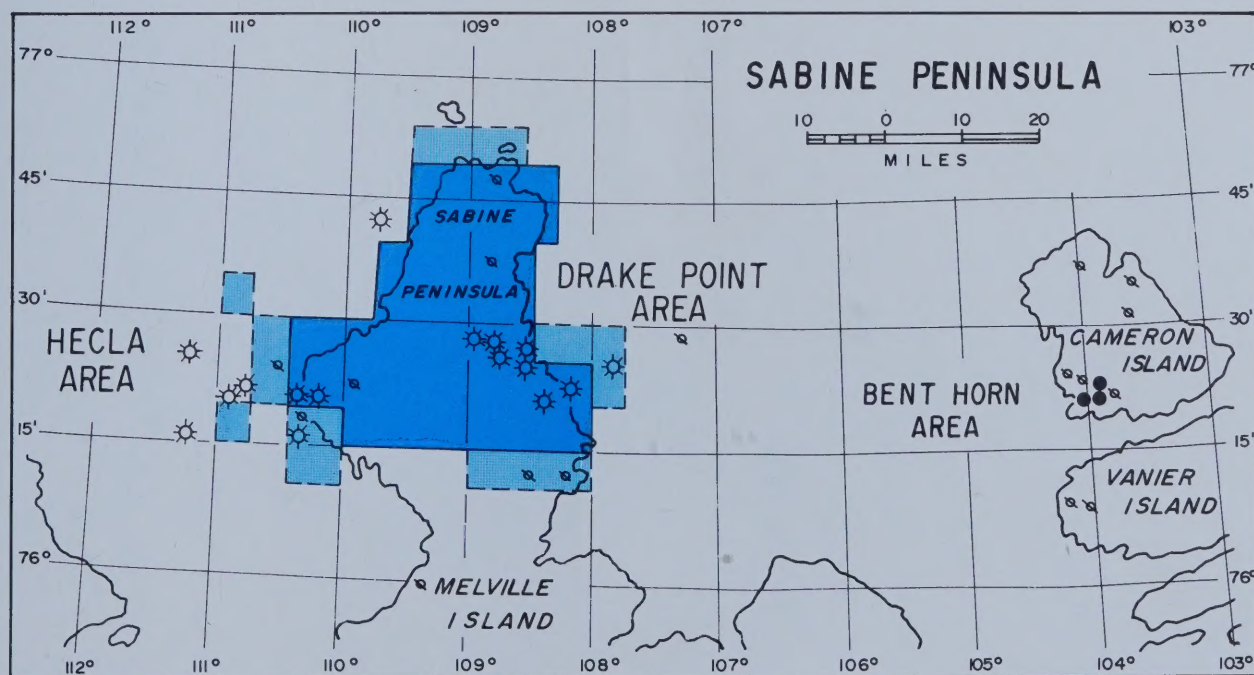


- LEGEND**
- PLACE GAS & OIL CO. LTD. leases and licences
 - PLACE - MITCHELL farmout acreage
 - Acreage to be bought from ANSCHUTZ
 - Acreage to be sold to ANSCHUTZ
 - Commercial gas well
 - Abandoned well
 - PLACE 6" pipeline
 - PLACE 3" pipeline
 - PLACE 2" pipeline
 - PLACE - MITCHELL 4" pipeline
 - PLACE - MITCHELL 2" pipeline



PLACE GAS & OIL COMPANY LIMITED

CANADIAN ARCTIC ISLANDS





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